SM/08/350
Supplement 2

February 3, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Charges and Maturities—Proposals for Reform**

Attached for the **information** of Executive Directors is further supplementary information relating to the papers on charges and maturities—proposals for reform (SM/08/350, 12/12/08 and SM/08/350, Supplement 1, 1/16/09), which were discussed on **Friday, January 23, 2009.**

It is not intended that this paper will be published on the Fund's external website.

Questions may be referred to Mr. Giorgianni, SPR (ext. 35326) and Mr. Savastano, WHD (ext. 38545).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

Charges and Maturities—Proposals for Reform
Supplement

Prepared by the Finance and Strategy, Policy and Review Departments

(In consultation with the Legal Department)

Approved by Andrew Tweedie and Reza Moghadam

February 2, 2009

In their gray statements issued prior to the Board discussion of the above paper, Directors asked staff to examine four further alternative surcharge systems to those presented in Supplement 1 of SM/08/350.[1] This supplement responds to that request.

I. Four Alternative Surcharge Systems

1. **The main features of the alternative surcharge systems are summarized in Table 1** (Schedules 7–10). As in Supplement 1, the table indicates the access threshold (in percent of quota) after which surcharges start to apply, the time at which the time-based surcharge(s) kick(s) in, and the level of the surcharges. The time-based surcharge(s) would apply when credit outstanding remains above the quota threshold(s) of the corresponding surcharge system for more than the number of months stipulated in each system.

- **Schedule 7** consists of two level-based surcharges; the first one (of 200 basis points) would be applicable to access in excess of 200 percent of quota and up to 500 percent of quota, while the second one (of 300 basis points) would apply to access in excess of 500 percent of quota. In addition, the system would contain a time-based surcharge (of 100 basis points) that would be applicable to credit in excess of 200 percent of quota that is outstanding for more than 36 months.

- **Schedule 8** also consists of two level-based surcharges and one time-based surcharge. The first level-based surcharge (of 100 basis points) would be applicable to access in

[1] *Charges and Maturities—Proposals for Reform, Supplement 1 (SM/08/350, 1/16/09).*

excess of 300 percent of quota and up to 500 percent of quota, while the second (of 200 basis points) would apply to access in excess of 500 percent of quota. As in Schedule 7, the time-based surcharge would be 100 basis points, although in this case it would apply to credit in excess of 300 percent of quota that is outstanding for more than 36 months.

- **Schedule 9** contains a single level-based surcharge (of 200 basis points) that would be applicable to access in excess of 500 percent of quota, and two time-based surcharges (of 100 basis points each). The first time-based surcharge would apply to credit in excess of 500 percent of quota that remains outstanding for more than 24 months but up to 36 months, while the second time-based surcharge would apply to credit above 500 percent of quota that remains outstanding for more than 36 months.

- **Schedule 10** contains one level-based surcharge (applicable to credit in excess of 500 percent of quota) and one time-based surcharge (of 100 basis points) applicable to credit in excess of 500 percent of quota that remains outstanding for more than 36 months. This alternative seeks to identify the level-based surcharge that would be revenue-neutral compared to the system proposed by staff in SM/08/350. The required level-based surcharge would vary inversely with the size of the arrangement (in percent of quota).[2] The example shown in Table 1 is based on an arrangement of 800 percent of quota and would necessitate a level-based surcharge of 502 basis points to generate the same surcharge income as the staff proposal (SDR 473 million), whereas a level-based surcharge of 335 basis points would be required for an arrangement of 1200 percent of quota. Revenue under this schedule would always be lower than under the staff proposal (and the current system) for an arrangement of 400 percent of quota, because the level-based surcharge would not apply at this level of access.

[2] All numerical calculations are based on a credit outstanding in the credit tranches under a 24-month stand-by arrangement (SBA) for a member country with a quota of SDR 1300 million and no Fund credit outstanding at the start of the arrangement. Surcharge income is calculated for three levels of access: 400 percent, 800 percent and 1200 percent of quota. In all cases, it is assumed that one third of total access under the arrangement was disbursed upon approval, and the remaining two-thirds were evenly disbursed in eight quarterly purchases. Repurchases are assumed to follow the obligation schedule. A corollary of this simplifying assumption is that members are assumed not to repay ahead of (the obligation) schedule in response to the time-based surcharge.

Table 1. Alternative Surcharge Schedules

	Current schedule	Proposed schedule as in SM/08/350	Alternative schedules									
			1	2	3	4	5	6	7	8	9	10
Level-based surcharge	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Number of tiers	2	1	1	1	1	1	2	3	2	2	1	1
Quota threshold												
First tier	200	300	500	300	300	300	200	200	200	300	500	500
Second tier	300						500	300	500	500		
Third tier								500				
Surcharge (cumulative, bps)												
First tier	100	200	200	200	200	100	100	100	200	100	200	502.3
Second tier	200						200	200	300	200		
Third tier								300				
Time-based surcharge 1/	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Number of steps		1	1	1	2	2	1	1	1	1	2	1
Duration trigger (in months)												
First step		36	36	36	27	24	36	36	36	36	24	36
Second step					39	36					36	
Surcharge (cumulative, bps)												
First step		100	100	50	50	100	100	100	100	100	100	100
Second step					100	150					100	

Source: Finance Department, IMF.

1/ The time-based surcharge(s) kicks in when credit outstanding remains above the quota threshold(s) of the corresponding surcharge system for the number of months stipulated in each system.

2. **Table 2 illustrates the potential effects of the four alternative systems on surcharge income using the same hypothetical examples presented in SM/08/350 and in Supplement 1**. The results can be summarized as follows:

- Surcharge income would be unambiguously higher than under the current system and the staff proposal under Schedule 7;

- Schedules 8 and 9 would yield lower surcharge income than the current system and the staff proposal for all access levels; and

- Schedule 10 is revenue-neutral at access of 800 percent of quota by construction. However, this result is dependent on the particular—and somewhat artificial—assumptions used (see footnote 2). In practice, surcharge income would vary depending on key parameters of the Fund arrangement (i.e., level of access, phasing, credit outstanding at the start of the program), including the incentives for borrowers to request access of up to 500 percent of quota to avoid having to pay a relatively large surcharge for amounts above that level.

Table 2. Comparison of Surcharge Income under Alternative Schedules

(in SDR millions) 1/

	Current schedule	Proposed schedule as in SM/08/350	Alternative schedules 2/									
			1	2	3	4	5	6	7	8	9	10
Access of 400 percent of quota												
Surcharge income	97.4	51.5	0.0	51.5	52.2	29.2	83.3	107.5	154.9	25.7	0.0	0.0
Change relative to current schedule			-97.4	-45.9	-45.2	-68.1	-14.1	10.2	57.6	-71.6	-97.4	-97.4
Change relative to proposed schedule as in SM/08/350			-51.5	0.0	0.7	-22.2	31.8	56.1	103.5	-25.7	-51.5	-51.5
Access of 800 percent of quota												
Surcharge income	473.4	473.4	191.8	439.3	516.8	438.2	447.4	643.5	718.3	342.3	228.6	473.4
Change relative to current schedule			-281.7	-34.1	43.3	-35.2	-26.0	170.1	244.8	-131.1	-244.8	0.0
Change relative to proposed schedule as in SM/08/350			-281.7	-34.1	43.3	-35.2	-26.0	170.1	244.8	-131.1	-244.8	0.0
Access of 1200 percent of quota												
Surcharge income	886.0	984.8	615.9	898.6	1085.5	953.9	915.7	1321.9	1395.5	807.6	775.1	1441.2
Change relative to current schedule			-270.2	12.6	199.5	67.8	29.7	435.9	509.4	-78.4	-110.9	555.1
Change relative to proposed schedule as in SM/08/350			-368.9	-86.1	100.8	-30.9	-69.1	337.2	410.7	-177.1	-209.6	456.4

Source: Finance Department, IMF.

1/ Calculations assume a 24-month SBA where one-third of the committed resources is disbursed upon approval, and the remaining two-thirds are evenly disbursed in eight quarterly installments. Repurchases are assumed to follow obligation schedule. The quota of the country is assumed to be SDR 1300 million.

2/ Key parameters of surcharge schedules as described in Table 1.